

## **F. Allocation and Apportionment Procedures (G.S. 105-130.4)**

### **1. Preliminary Statement**

A corporation that is taxable both within and without North Carolina is required to allocate and apportion its entire net income or loss to North Carolina in accordance with the statutory formula under G.S. 105-130.4.

No corporation is allowed to use any alternative formula or method of reporting its income to North Carolina except upon written order of the Tax Review Board. Any return in which any formula or method other than as prescribed by statute is used without the permission of the Tax Review Board is not a lawful return.

### **2. Alternate Apportionment Formula**

If any corporation believes that the statutory allocation formula allocates a greater portion of its income than is reasonably attributable to business or earnings in this State, it may request permission from the Tax Review Board to use an adjusted allocation formula that it believes would more properly allocate its income to North Carolina.

The petition must be filed with the Board not later than 90 days after the regular or extended due date of the tax return. Taxpayers should address all correspondence in connection with such petitions to the Secretary of the Tax Review Board, Department of Revenue, P.O. Box 871, Raleigh, North Carolina 27602-0871.

### **3. Statutory Procedures for Reporting Net Income or Loss to North Carolina**

#### **a. Determine Net Income Everywhere**

The corporation should determine its net income or loss from its entire operations conducted everywhere during the income year in accordance with the instructions given in the subject, "Computation of Net Income." In computing such net income only contributions to donees outside North Carolina are deductible. Contributions to qualified North Carolina donees are deductible only from total income allocated to North Carolina, computed in Item *h* below.

#### **b. Determine Nonapportionable Income**

The corporation should review its entire net income or loss as computed in Item *a* above to determine whether any items of nonapportionable income, loss and expense qualify for direct allocation to North Carolina and other states pursuant to G.S. 105-130.4, subdivisions (d) through (h). Any expenses directly and/or indirectly related to an activity that produces nonapportionable income must be considered in the computation of nonbusiness income to be allocated. (See Subject: "Attribution of Expenses to Nontaxable Income and to Nonapportionable Income and Property".)

#### **c. Determine Apportionable Income**

The corporation determines its apportionable income or loss by deducting all nonapportionable income or loss directly allocable to North Carolina and other states (computed in Item *b* above) from its entire net income or loss (computed in Item *a* above).

#### **d. Compute Apportionment Factors**

The corporation is required to determine and compute the apportionment factor applicable to its principal business operations conducted everywhere during the income year. The value of property, the income from which constitutes nonapportionable

income, and items of nonapportionable income, loss, and expense directly allocable to North Carolina and other states must be excluded in computing the apportionment factors.

**e. Apportion Income to North Carolina**

The corporation determines the amount of its apportionable income or loss attributable to North Carolina by applying the factor computed in Item *d* above to the total business income or loss as computed in Item *c* above.

**f. Determine Total Income Allocable to North Carolina**

The corporation should review the total amount of nonapportionable income or loss as computed in Item *b* above and list separately the amount of such income or loss directly allocable to North Carolina. This amount, added to the amount of apportionable income or loss apportioned to this State in Item *e* above, represents the total amount of the corporation's entire net income or loss that is subject to North Carolina tax.

**g. Percentage Depletion Deduction Before Net Economic Loss Deduction**

The amount of percentage depletion over cost depletion on North Carolina property must be deducted before claiming any net economic loss carryover deduction.

**h. Determine Total North Carolina Income Before Deductions for Contributions to North Carolina Donees**

To determine total North Carolina income before the deduction for contributions to North Carolina donees, the corporation deducts the allowable portion of any net economic loss for a prior year or years from the total income determined as described in Item *g* above.

**i. Determine Total Net Taxable Income in North Carolina**

Finally, the corporation arrives at its net taxable income in North Carolina by deducting contributions made to qualified North Carolina donees from the amount of total North Carolina income as computed in Item *h* above.